

**City of Rockville, Maryland**

**Comprehensive**

**Annual Financial Report**

**Part I**

**Introductory Section**

**Fiscal Year 2000**  
**July 1, 1999 - June 30, 2000**



**City of Rockville, Maryland**

**Comprehensive**

**Annual Financial Report**



**Prepared by:**  
**Department of Finance**

**Donna J. Boxer**  
**Director**

**Fiscal Year 2000**  
**July 1, 1999 - June 30, 2000**

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CITY OF ROCKVILLE, MARYLAND  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
JUNE 30, 2000

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CITY OF ROCKVILLE, MARYLAND  
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MAYOR

Rose G. Krasnow

COUNCIL MEMBERS

Robert E. Dorsey  
Anne M. Robbins

Robert J. Wright  
Glennon J. Harrison

CITY MANAGER

W. Mark Pentz

DIRECTOR OF FINANCE

Donna J. Boxer

CITY CLERK

Claire F. Funkhouser



October 26, 2000



Honorable Mayor and Members of the City Council  
City of Rockville, Maryland

This *Comprehensive Annual Financial Report* is issued for the City of Rockville, Maryland with respect to the fiscal year ending June 30, 2000. The purpose of this report is to provide financial information of importance to the Mayor and Council, the citizens of Rockville, oversight bodies, investors, and creditors. This report is also a vehicle for the City officials to gauge the extent to which sound financial management and reporting practices are being applied to protect the public interest.

A high priority of the City is to maintain a sound financial condition. We believe that our financial results for the year ended June 30, 2000, reflect our commitment to this objective.

- The City's reserves continue to be healthy. The undesignated General Fund fund balance of \$6,779,503 represents approximately 19.3 percent of the year's total revenue. The Enterprise Funds had combined unreserved retained earnings of \$29,299,088.
- Excluding the City's budgeted \$3,000,000 pay-as-you-go transfer to the Capital Improvements Fund, the General Fund generated an operating surplus for the 17<sup>th</sup> consecutive year.

The City's tradition of excellence was borne out by a number of awards received during Fiscal Year 2000:

- The American Bar Association honored the City's Lincoln Park Task Force Team as an exemplary police unit in the fight against illegal drugs.
- The Community Visioning Process was awarded a Savvy Award of Excellence from the City County Communications Marketing Association.
- Community Ministries of Rockville honored the Human Services Advisory Commission for its advocacy on human services issues.
- The City received Maryland Recreation and Parks Association awards for the Rockville Millennium Logo and for program brochures for the Twinbrook Community Recreation Center.
- The City's "Every 15 Minutes" documentary received an Award for Excellence in Government TV from the National Association of Telecommunication Officers and Advisors.
- For the eleventh year, the National Arbor Day Foundation awarded Rockville a Tree City USA Award for tree planting and urban forest management.
- For the fifth year, the State of Maryland honored the City's crime prevention programs and activities.
- The City received an Honorable Mention for Best Dressed Police Department in the United States from the National Association of Uniform Manufacturers and Distributors.
- For the ninth consecutive year, the City received the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) and for the tenth year in a row the GFOA awarded the City a Certificate of Excellence in Financial Reporting for Rockville's Comprehensive Annual Financial Report.



## SIGNIFICANT EVENTS

- Development in Town Center and around the city is breathing new life into the Rockville community. New businesses opened in the Magruder's Center, at Rockville Center, Inc., and at 700 Hungerford Drive in the remodeled Columbia Electric Building. The sale and plan for the \$6 million renovation of the former GE building on N. Washington Street along with the approval of the use permit for the Whalen Family Trust to construct 100,000 square feet of office and retail space are major steps forward in the Town Center revitalization effort.
- During FY 2000, the City worked with Montgomery County officials to secure funding for the new Rockville Regional Library. In addition, City staff worked with State and County officials to coordinate efforts to build a new District Court on the existing library site in Town Center.
- The Mayor and Council approved the Concept Plan for the Falls Grove development, to consist of 1,530 residences, 525,000 square feet of research and development space, 425,000 square feet of office space, 150,000 square feet of retail space and 87.5 acres of parkland.
- With construction skyrocketing at King Farm, the City worked to mitigate traffic concerns and several projects to improve intersections have been approved and funded by the State. As of the end of FY 2000, the King Farm community contains 97 detached homes, 75 townhomes, and 457 apartments/condominiums, with more under construction. More than 2,800 of the 3,200 possible residences received detailed plan approval.
- Two major office buildings – One Irvington Center (King Farm) and 2273 West Montgomery Avenue – were completed in FY 2000. Three major office buildings began construction in FY 2000 – Two Irvington Center (King Farm), The Preserve (2600 Tower Oaks Boulevard) by Boston Properties, and The Tower Building (1101 Wootton Parkway) by Tower-Dawson Limited Partnership. These three buildings will add more than 600,000 square feet of Class A office space to the city.

Rockville's long standing tradition of commitment to providing premium services at affordable costs should ensure that the City continues to be viewed as a desirable residential and corporate home. The collaborative heritage, which the community has fostered, will ensure that all relevant resources are drawn upon in developing human visions for a 21<sup>st</sup> century urban environment, which is better than ever.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "W. Mark Pentz", is written over a large, stylized, light-colored flourish or watermark.

W. Mark Pentz  
City Manager



October 26, 2000

Honorable Mayor and Members of City Council  
City of Rockville, Maryland

The City's Department of Finance is pleased to submit this *Comprehensive Annual Financial Report (CAFR)* covering all fund and financial transactions for the fiscal year ended June 30, 2000. The CAFR is designed to meet the requirements of generally accepted accounting principles and comply with applicable statutes and regulations pertaining to the presentation of financial information. More importantly, however, the CAFR is designed to be a vehicle to assist in decision-making by individuals and groups with legitimate interests in the financial affairs of the City government. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City government. To the best of our knowledge, the data in this report is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of the City government's financial operations. The explanatory remarks provided in this transmittal letter, as well as the city manager's letter, are designed to place the vast array of figures presented in this report in a digestible perspective. In addition, the statistical section provides insight into 10-year trends affecting the financial condition of the City government and the soundness of the economy of the overall Rockville community. Wherever possible, an attempt has been made to present information in a format reflecting current prevailing national standards. This facilitates the process of comparing our community to others.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes the city manager's transmittal letter, this transmittal letter, the City's organizational chart, and a list of principal officials. The financial section includes the general purpose financial statements and the combining, individual fund, and account group financial statements and schedules. The statistical section highlights representative financial and demographic information, generally presented on a multi-year basis.

#### THE CITY

Rockville is a city sharing local government taxing authority with Montgomery County, Maryland. Rockville derives its governing authority from a charter granted by the General Assembly of Maryland. The City operates under the council-manager form of government. The governing body is the Mayor and Council, which formulates policies for the administration of the City. The Mayor and Council are comprised of a mayor and four council members, elected at large for a two-year term. The mayor is chosen on a separate ballot. The city manager is appointed by the Mayor and Council to serve as the City's chief executive officer, and has appointive and removal authority over department heads and other employees. The city manager is responsible for the implementation of policies established by the Mayor and Council.

The City provides a wide range of services encompassing public works, public safety, housing and human services programs, recreation, transportation, planning, and community development. Montgomery County provides schools, libraries, social services, and fire protection. All funds and account groups pertaining to the City's operations are included in this report. Financial operations of the Rockville Housing Enterprises are not included in this report because this organization does not meet the established criteria for inclusion in the reporting entity.



## REVENUE AND EXPENDITURES

Revenue for general governmental functions (General, Special Revenue, Debt Service, and Capital Projects Funds) increased by 2.4 percent in fiscal year 2000. General governmental revenue is summarized by source for fiscal years 2000 and 1999 in the table below:

<u>Revenue Source</u>	<u>2000</u>	<u>1999</u>	<u>% Increase (Decrease)</u>
Property taxes and assessments	\$17,773,062	\$18,941,243	(6.2)
Revenue from county, state, and federal governments	11,715,410	11,922,769	(1.7)
Licenses and permits	1,645,335	1,129,716	45.6
Charges for services	3,957,871	2,621,387	51.0
Use of money and property	1,292,664	1,292,812	-
Fines and forfeitures	13,224	131,111	(89.9)
Other revenue	<u>1,658,659</u>	<u>1,140,465</u>	45.4
Total revenue	<u>\$38,056,225</u>	<u>\$37,179,503</u>	2.4

Property taxes (including assessments) accounted for 46.7 percent of total governmental revenue in fiscal year 2000, down from 50.9 percent a year earlier. Total revenue from this source decreased by \$1,168,181. This large decrease is primarily due to the receipt of an early payoff of a special assessment in 1999.

The increase in licenses and permits revenue reflects the development of the King Farm and the implementation of fee increases in the last quarter of fiscal year 2000.

The other revenue increase was due to a receipt of \$291,851 from a developer for interest due on a promissory note, a rebate check of \$76,800 from the City's self-insurance plan administrators, and a \$74,526 increase in the overhead allocation charges to the City's Enterprise Funds.

The increase in charges for services was the result of the reclassification of the Swim Center Fund from an Enterprise Fund to a Special Revenue fund in fiscal year 2000.



Expenditures for general governmental purposes (General, Special Revenue, Debt Service, and Capital Projects Funds) amounted to \$43,246,118 in fiscal year 2000, up 11.9 percent from the 1999 level. The increase was primarily due to capital expenditures incurred for the Lincoln Park Community Center and vehicle replacements. Comparative expenditures for the two years are shown below:

<u>Function</u>	<u>2000</u>	<u>1999</u>	<u>% Increase (Decrease)</u>
General government	\$ 7,241,808	\$ 6,380,787	13.5
Community development block grant	303,854	587,962	(48.3)
Community development	868,509	1,057,886	(17.9)
Community services	771,131	848,696	(9.1)
Public safety	5,614,447	4,922,060	14.1
Public works	4,410,505	4,488,229	(1.7)
Recreation and parks	10,022,854	8,542,658	17.3
Nondepartmental	1,815,626	1,566,781	15.9
Capital outlays	8,138,472	6,526,274	24.7
Debt service	<u>4,058,912</u>	<u>3,732,052</u>	8.8
Total expenditures	<u>\$43,246,118</u>	<u>\$38,653,385</u>	11.9

#### SPECIFIC FUND HIGHLIGHTS

##### *General Fund*

The General Fund is the principal fund of the City and is used to account for all activities of the City not included in other funds. The General Fund accounts for the normal recurring activities of the City.

In fiscal year 2000, the General Fund recognized revenue totaling \$35,162,474, versus expenditures and other financing uses of \$36,176,619, thus resulting in an operating deficit of \$1,014,145. The deficit was planned and stems from the City's commitment to dedicate fund balance, in excess of a targeted level, to support the capital improvements program in the form of "pay-as-you-go" funding.

##### *Special Revenue Funds*

Four different special revenue funds are accounted for in this report: the Community Development Block Grant (CDBG) Fund, the Swim Center Fund, the Property Management Fund, and the Special Activities Fund. The CDBG Fund expended \$303,854 on eligible programs. The Property Management Fund had revenues of \$133,618 and expenditures of \$669 for a surplus of \$132,949. The Special Activities Fund accounts for various community activities throughout Rockville and had a combined surplus of \$112,154 to close the year with a fund balance of \$210,491. The Swim Center's revenues were \$911,261 and expenditures were \$910,897 for a surplus of \$364.

##### *Debt Service Fund*

Expenditures for the payment of principal and interest due on bonds, other than those supported by Enterprise Fund revenue, totaled \$4,058,912 in fiscal year 2000. The increase in total expenditures from fiscal year 1999 to fiscal year 2000 amounted to \$326,860. This increase was due to moving the debt for the vehicle lease program from the General Fund to the Debt Service Fund in fiscal year 2000.



### *Capital Projects Funds*

This fund is used to account for general capital construction including streets, parks, and public buildings.

The Capital Projects Fund received revenue of \$848,719 in 2000, along with pay-as-you-go funding of \$3,000,000 from the General Fund and \$1,023,639 from the sale of general obligation bonds, which were earmarked for the City's vehicle replacement program. Project expenditures of \$8,138,472 were incurred, and a deficit fund balance of \$787,751 existed at year end.

### *Enterprise Funds - Utilities*

The Water Facility Fund generated revenue of \$3,338,668 and expenses of \$3,680,390 in fiscal year 2000, resulting in a net loss of \$341,722. Retained earnings amounted to \$8,388,822 at year end. A net loss was planned for this fund.

The Sanitary Sewer Fund earned a net income of \$1,004,036 in 2000. Revenues totaled \$4,758,256, expenses were \$3,754,220, and year end retained earnings amounted to \$12,448,103.

The Refuse Fund generated a net loss of \$722,882. Retained earnings at June 30, 2000, amounted to \$3,475,310. A net loss was planned for this fund.

The Storm Water Management Fund earned a net income of \$1,032,566 based on revenue of \$1,607,099 and expenses of \$574,533.

### *Enterprise Funds - Parking Fund*

The Parking Fund earned a net income of \$189,176 based on revenue of \$215,289, expenses of \$26,113, and year end retained earnings amounted to \$211,649.

### *Enterprise Funds - RedGate Golf Course*

The golf course generated revenue of \$968,885, received an operating transfer of \$70,407, and incurred expenses of \$1,093,771, closing the year with retained earnings of \$1,682,108.

### *Pension Funds*

The City of Rockville Public Employee Retirement System is part of the City reporting entity. Additions from contributions and interest were \$2,235,592 in fiscal year 2000, and plan deductions were \$2,032,225, as net assets available for plan benefits increased to \$47,715,480.



## REVENUE AND EXPENDITURE, CAPITAL FINANCING AND DEBT MANAGEMENT POLICIES

The City has long recognized the importance of proper long-range planning in order to meet capital improvement needs as they arise without experiencing dramatic fluctuations in debt service costs. To articulate this commitment the Mayor and Council adopted the following set of 18 revised fiscal policies in Fiscal Year 1998:

### *Revenue and Expenditure Policies:*

1. The City will strive to adopt an annual General Fund budget in which expenditures, net of pay-as-you-go capital project contributions, do not exceed projected revenues.
2. A five-year projection of revenues and expenditures for the General, Enterprise, and Debt Service Funds is prepared each fiscal year to provide strategic perspective to each annual budget process.
3. On an annual basis the City will set fees and rates for the Enterprise Funds at levels which fully cover total direct and indirect operating costs, and all capital outlay and debt service, except where the City is not the sole provider of the service and competitive rates must be taken into consideration. In these instances, fees and rates must at least cover all direct and indirect operating expenses.

### *Capital Financing and Debt Management Policies:*

1. Long-term borrowing will not be used to finance current operations or normal maintenance.
2. All debt issued, including by lease-purchase methods, will be repaid within a period not to exceed the expected useful lives of the improvements financed by the debt.
3. The City will not issue tax or revenue anticipation notes.
4. The City will strive to maintain a high reliance on pay-as-you-go financing for its capital improvements.
5. The City will maintain its net tax-supported debt at a level not to exceed 2 percent of the assessed valuation of taxable property within the City.
6. The City will strive to ensure that its net tax-supported debt per capita does not exceed \$700. The City will strive to ensure that the combined total of its direct net bonded debt and its attributed share of overlapping debt issued by Montgomery County does not exceed \$2,000 per capita.
7. The City will strive to ensure that its net tax-supported debt per capita as a percentage of federal adjusted gross income does not exceed two and one-half percent.
8. The City will maintain its annual net tax-supported debt service costs at a level less than 15 percent of the combined expenditure budgets (net of interfund transfers) for the General, Special Revenue, and Debt Service Funds.
9. The City will maintain unreserved undesignated General Fund fund balance at a level not less than 15 percent of annual General Fund revenue. The reduction of the fund balance from its current required level of 25 percent will take place in annual increments of 5 percent, as provided for in the City's Strategic Plan. The reduction of fund balance dollars will be used for pay-as-you-go financing for capital improvements or for other one-time capital items. The purpose of this unreserved balance is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provision of services to residents. Use of these funds below the required level must be approved by specific action of the Mayor and Council.



10. To the extent that unreserved General Fund fund balance exceeds the target, the City will draw upon the fund balance to provide pay-as-you-go financing for capital projects or for other one-time capital items.
11. Annually, a six-year CIP plan will be developed analyzing all anticipated capital expenditures by year and identifying associated funding sources. The plan also will contain projections of how the City will perform over the six-year period in relation to the fiscal policies that refer to debt ratios.
12. The first year of the six-year Capital Improvements Program (CIP) and any unspent funds from prior years will be appropriated as part of the annual budget process. The CIP will be appropriated by fund. At least semi-annually, the City Manager will notify the Council of any transfers between projects within a fund.
13. The City will maintain a Capital Projects Monitoring Committee composed of City staff which will meet not less than once every six months to review the progress on all outstanding projects as well as to revise spending projections.
14. If new project appropriation needs are identified at an interim period during the fiscal year, at the Fund level, the appropriations ordinance will be utilized to provide formal budgetary authority for the increase. Any significant impact resulting from the change on the overall CIP and on the debt ratios will be indicated at that time.
15. Each year a closing resolution will be submitted to the Mayor and Council to obtain formal authorization to close completed capital projects; the unexpended appropriations for these projects will be returned to the Fund from which the appropriations were made.

The City's performance against key quantitative measures specified within the fiscal policies is as follows:

Key Financial Ratios Compared to Policy Targets  
Historical Performance

	<u>Policy Targets</u>	<u>As of June 30, 2000</u>	<u>As of June 30, 1999</u>	<u>As of June 30, 1998</u>	<u>As of June 30, 1997</u>
Adjusted Net Bonded Debt as a Percentage of Assessed Value	2.0%	0.8%	.9%	0.9%	1.1%
Adjusted Net Bonded Debt per Capita	\$700	\$348	\$380	\$414	\$475
Adjusted Net Bonded Debt per Capita as a Percentage of Per Capita Income	2.5%	1.4%	1.5%	1.8%	2.3%
Net Bonded Debt Service Costs as a Percentage Of Expenditures for the General, Special Revenue, and Debt Service Funds	15.0%	10.4%	10.7%	10.9%	12.7%
Unreserved General Fund fund balance as a Percentage of General Fund revenue	15.0%	19.3%	26.3%	31.5%	33.3%

The policy targets were all met.





Along with the operating budget, the city manager submits a Capital Improvement Plan each year to the Mayor and Council. This document provides for improvements to the City's public facilities for the ensuing fiscal year and five years thereafter. The first year of the plan establishes a capital budget for the new fiscal year. The remaining five years serve as a guide for use in determining probable future debt issuance needs. Capital improvement expenditures are accounted for in the Capital Projects Fund and are funded by the General Fund (current appropriations), general obligation debt, developer contributions, and Enterprise Fund contributions. The City's Capital Improvement Program for fiscal years 2001 through 2006 calls for expenditures amounting to \$149.8 million.

The City's most recent bond ratings are shown below:

Moodys Investors Service

Aa1

Standard & Poor's

AA+

The City's total long-term debt, excluding a \$1,451,048 accrual to reflect obligations for compensated absences, amounted to \$29,658,337 at June 30, 2000. Net debt outstanding for general obligation bonds was \$21,063,306. Overlapping debt issued by Montgomery County and attributable to the citizens and businesses of Rockville amounted to \$84,984,435.

#### CASH MANAGEMENT

The City believes strongly in making the best possible use of idle cash resources. Essentially, all cash (other than that in the pension fund) is pooled into one operating account. Maturity mixes in investment portfolios are staggered to assure that funds are available as needed to meet disbursement requirements as well as to take advantage of market fluctuations in order to maximize financial return within the parameters of acceptable risk. Interest earned by the City's general investment portfolio totaled \$1,627,108 for an average rate of return of 5.30 percent. The average daily investment portfolio was \$30,691,543. The Principal Mutual Life Insurance Company manages the pension fund assets, which earned \$59,256 or 0.12 percent in fiscal year 2000.

To further enhance its cash management program, the City maintains a comprehensive banking services agreement with SunTrust Bank, Maryland. Services provided include a concentration account for automatic investment of idle funds, zero balance and controlled disbursement accounts, wire transfer services, fully automated account reconciliations, and automated lockbox operations (payment processing for utility bills). The concentration of accounts enables the City to fulfill its policy objective of ensuring that all deposits are collateralized or insured.



## RISK MANAGEMENT

The City is a member of the Montgomery County self-insurance plan. The City is insured for comprehensive general liability, including errors and omissions, comprehensive auto liability, property damage for the vehicular fleet, fidelity bond coverage, and worker's compensation, up to \$6 million on a per claim basis, with an aggregate deductible plan of \$6 million per year.

## BUDGETING AND ACCOUNTING

The City Charter requires the city manager to submit a budget to the Mayor and Council at least one month before the beginning of each fiscal year. In addition to the operating budget, a six-year capital improvements plan is presented for the Council's review. Each department and agency prepares its own budget request for the city manager's review. The Mayor and Council schedules and publishes advance notices of public hearings. The budget is approved in the form of an appropriations ordinance. During the year, the city manager has authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for a given fund can be enacted only by the Mayor and Council through a budget amendment ordinance.

As a management policy, budgetary control is maintained in the General, Special Revenue, and Enterprise funds at the character level within departments by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders, which result in overruns of balances, are not processed until sufficient appropriations are made available. In the Capital Projects Fund, similar procedures are followed, but the level of control is at the project level. For all other funds, appropriation control is at the fund level.

The City places continued emphasis on maintenance of an accounting system, which provides strong internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. The internal controls in place in the City are subject to periodic review by management officials.

## INDEPENDENT AUDIT

The City Charter specifies that the financial statements must be audited annually by a Certified Public Accountant. The auditor is required to audit all funds and account groups of the City in accordance with generally accepted auditing standards.

The City has contracted with the firm of Keller Bruner and Company, LLP to perform audit services. Their report is presented on page 19.



## CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rockville for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1999. This was the tenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGEMENTS

This report could not have been prepared without the dedicated cooperation of the entire staff of the Finance Department. Special recognition is extended to Fran Jablonski, Tim Peifer, Debbie Peoples, Jen Frank, Whitney Coleman, Susan Lander, Crystal McGill-Belk, Nancy Zombolas, Carlton Barclay, Valerie Kaufman, and Janet Hare for the sense of commitment they displayed throughout the preparation process. We also would like to express our appreciation to the Mayor and Council for their interest and support in planning and carrying out the City's financial operations in a responsible, progressive fashion.

## CONCLUSION

The City of Rockville is resolved to meet the challenges of our times and demonstrate resourceful means of fulfilling our mission to our citizens while preserving our sound financial condition.

Respectfully submitted,

A handwritten signature in cursive script, reading "Donna J. Boxer".

Donna J. Boxer  
Director of Finance

A handwritten signature in cursive script, reading "David B. Rowland".

David B. Rowland  
Controller

# City of Rockville Organizational Chart June 2000

